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FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC 7794
INFO RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/USDOC WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEHRC/USDA FAS WASHDC 4250
RUEHNE/AMEMBASSY NEW DELHI 3517
RUEHLO/AMEMBASSY LONDON 8290
RUEHML/AMEMBASSY MANILA 3001
RUEHKP/AMCONSUL KARACHI 0023
RUEHLH/AMCONSUL LAHORE 5766
RUEHPW/AMCONSUL PESHAWAR 4542
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SUBJECT: SAUDI ARABIA AGREES TO DEFER PAKISTAN'S OIL PAYMENTS BUT
DETAILS REMAIN UNRESOLVED

11. SUMMARY: (SBU) Pakistan is once again asking for assistance from Saudi Arabia to bail out the country's faltering economy by providing deferred oil payment concession. Details on the size and duration of this concession are still being finalized with Saudi authorities and are not publicly available. This may be an opportunity for Pakistan to correct the domestic petroleum pricing imbalances and phase out energy subsidies. END SUMMARY.

12. (U) Local media reports that Saudi Arabia has agreed to provide crude oil worth USD 5.8 billion to the Government of Pakistan (GOP) with deferred payments during the current GOP fiscal year (July 1-June 30). If implemented, this concession will provide a significant boost to Pakistan's economy at a time of fast-mounting political and economic difficulties. The huge current account deficit and balance of payment problems are largely due to the world oil price hike. Pakistan's Finance Minister Naveed Qamar said in a local press interview that "the modalities are being worked out" but Qamar restrained from disclosing the time span covered by the deferred oil payments.

13. (U) While not disclosing specific details of the oil deal, Dr. Ashfaque Hasan Khan, Special Secretary Finance would only confirm that "Saudi Arabia has given positive signals to provide oil on deferred payments" and further elaborated that negotiations for specific terms were ongoing. The Prime Minister Syed Yousuf Raza Gilani and Pakistan Peoples Party's co-chairperson Asif Ali Zardari requested 3-4 years deferred oil payment facility during their meeting with Saudi King Abdullah bin Abdulaziz in June. According to local press, the Finance Minister Syed Naveed Qamar met Saudi Ambassador Ali Awadh Asseri on June 10 to discuss more specific details regarding the oil concession.

14. (U) Ambassador talked to the Saudi Ambassador who noted that his government is inclined to be sympathetic and further noted that the Saudi Ambassador in Washington would have all of the details. Sakiq Sharani, Member Economic Advisory Committee of the Government of Pakistan (GOP) told EconOff that "details of the agreement when disclosed will determine how useful this facility will be for Pakistan." Further noting that if this is a grant, Pakistan will have a unique opportunity to charge the retail price of oil for domestic customers and make structural adjustments in the economy such as the "phase out oil subsidies in two to three years." Sharani further stated that if this is a deferred payment than the ability of the GOP to phase out subsidies will be severely limited. He added that in either case the USD 5-6 billion financing if made available through this concession will help finance the current account deficit of USD 15 billion.

15. (U) Pakistan roughly imports 110,000 barrels of Arabian light crude oil daily and over 40 million barrels annually which, if

calculated at the June price of USD 121 a barrel, amounts to about USD 4.8 billion. Currently the GOP is getting a 60-day deferred payment plan with the price of USD 121 per barrel. Under the new agreement being negotiated, Pakistan is reportedly seeking a longer oil concession for 3 to 4 years.

¶6. (U) Pakistan first received a USD 1 billion Saudi oil concession in 1998 when it faced international sanctions for testing nuclear devices. This concession was intact until 2003 when the Pakistan made final payment.

¶7. (U) The local press also reports that Saudi Arabia has also promised to encourage investment in Pakistan's privatization program which aimed to generate USD 2 billion during the current FY08 fiscal year. Pakistan plans to hold two international conferences in Jeddah and Riyadh soon to attract foreign investment in the oil and gas, agriculture, information technology, construction and real estate sectors.

¶8. (SBU) COMMENT: Post will continue to monitor developments and seek further details as they become available. While the GOP may realize that continuation of fuel subsidies will further undermine the economy, they have yet to formalize a plan for phasing out the subsidies and passing on the increased costs to the public. While negotiations with the World Bank for a loan hinge on further subsidy phase outs, the current cost at the pump for the Pakistani consumer hovers around USD 76 per barrel and even modest price increases are being met with protests and riots. Given that the subsidies have been in place in Pakistan for such an extended period of time, without an oil concession from either the Saudis or another oil producing country, the GOP faces the impossible situation of balancing public outrage and skyrocketing international prices.

PATTERSON